

March 19, 2009

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Metropolitan Wastewater Department

SUBJECT: MWWD BID-TO-GOAL PUBLIC CONTRACTS OPERATIONS AGREEMENT

PERIOD: FISCAL YEAR 2008

BACKGROUND:

Effective July 1, 2007, the Metropolitan Wastewater Department (MWWD) Director, the MWWD Management Team, and the employees of MWWD entered into a new Memorandum of Understanding (MOU) with the Mayor, on behalf of the City of San Diego, that consolidates the previous Bid-to-Goal and Pay-for-Performance Programs. This new program, MWWD Bid-to-Goal Public Contracts Operations Agreement (Bid-to-Goal), is a department-wide team performance pay incentive program that contains three areas:

- Most Efficient Organizations (MEO) Budget Objective (Savings Calculation)
- Key Performance Service Levels
- Division Performance Goals

PURPOSE AND SCOPE:

Savings Calculation

- To perform a comprehensive review of MWWD's budgetary savings calculation.

Key Performance Service Levels

- To verify that adequate documentation supports reported results of achievement for all Key Performance Service Level goals.
- To identify practices and procedures to assist MWWD in improving future Key Performance Service Level program reporting.

Division Performance Goals

- To verify that adequate documentation supports reported percentages of goals "met".
- To verify Department savings reported.
- To identify practices and procedures to assist MWWD in improving future Division Performance Goals program reporting.

PROCEDURES:

Savings Calculation

- Compared total expenditures and encumbrances presented in the Annual Report to the total expenditures and encumbrances reported in the City of San Diego's Simpler reports.
- Performed testwork and analysis related to expenditures presented as out-of-scope.
- Performed testwork and analysis related to released encumbrances.
- Recalculated supporting schedules and documentation.
- Recalculated Savings based upon results of testwork.
- Reviewed pass-through documentation and calculations.
- Reviewed budgetary documentation and calculations.

Key Performance Service Levels

- Reviewed goal objectives.
- Compared the results for all 7 of the Key Performance Service Level Goals presented in the FY 2008 Annual Performance Report (Annual Report) to supporting documentation to verify achievement. One Key Performance Service Level was granted administrative relief, therefore, it was excluded from the procedures.
- Calculated percentages of Key Performance Service Levels met per results of testwork and verified that these percentages agreed with percentages reported by MWWWD.

Division Performance Goals

- Compared goals reported on at fiscal year end to goals presented in the goal summaries.
- Judgmentally selected a sample of goals from each division for testing based on the results reported by management, the complexity of the goal, and coverage of all Divisions.
- Calculated percentages of goals met, per results of testwork.
- Recalculated Division savings, per results of testwork.
- Reviewed prior years' recommendations.

OVERVIEW

As described in the "Purpose and Scope" description above, the purpose of our testwork is to verify accuracy of processing and implementation of the Bid-to Goal Program. In particular, results that have an impact on whether or not -- and to what extent -- incentive pay is awarded to eligible employees. It should also be noted that in FY08, MWWD put in place a Bid-to-Goal Implementation Team that has improved upon readiness and program checks and balances from what has been observed in prior program years. In the sections of this report that follow, several findings and improvement opportunities are noted.

MEO BUDGET OBJECTIVE (SAVINGS CALCULATION)

SUMMARY:

MWWD reported fixed objective budgetary savings of \$33,839,309 on the Annual Report. Based upon our comprehensive review, we identified errors causing total savings to be overstated by a net amount of \$3,867,310 (See Exhibit A). In addition, subsequent to the submission of the Annual Report, a decision was made by management to exclude the Director's Contingency from the savings calculation. This decreased savings by an additional \$4,681,639 (See Exhibit B). As a result, \$25,290,360 should be reported as budgetary savings in the Annual Report.

EXHIBIT A:

Annual Report Component	Amount per MWWD	Amount per Testwork	Decrease in Savings
Expended and Encumbered per Simpler Financials	\$208,556,676	\$209,209,728	(\$653,052)
Out-of-Scope Items	(\$5,073,121)	(\$1,879,315)	(\$3,193,806)
Bid-to-Goal payments in FY 2008	(\$5,367,473)	(\$5,367,473)	-
Released Encumbrances	(\$3,496,153)	(\$3,486,245)	(\$9,908)
Re-encumbrances	-	\$10,544	(\$10,544)
Service Level Agreements	(\$16,620,294)	(\$16,620,294)	-
TOTAL IN-SCOPE SPENDING	\$177,999,635	\$181,866,945	(\$3,867,310)

EXHIBIT B:

Adjusted Budget Objective	Amount per MWWD	Amount as Adjusted	Decrease in Savings
TOTAL ADJUSTED BID	\$211,838,944	\$207,157,305	(\$4,681,639)

FINDINGS AND RECOMMENDATIONS:

Finding 1:

We identified the following errors related to:

Expenditures and encumbrances per Simpler Financials:

The Simpler Financials were exported to Excel on October 12, 2008 in preparation for our testwork related to the savings calculation. However, these reports excluded post-close adjustments totaling \$576,584. This was due to a procedural change made by the City of San Diego Comptroller's Office (Comptroller). MWWD was unaware of the change until we inquired about differences between the Simpler Financials printed on October 12, 2008 and the version printed during our testwork.

MWWD excluded out-of-scope (OOS) construction in progress (CIP) expenditures from the total expenditures for the Wastewater Collection Division. While attempting to exclude these expenditures, \$76,468 that was not related to CIP was incorrectly excluded from the total expenditures.

As a result of these errors, expenditures were understated by the following amount:

Post-close adjustments	\$	576,584
Incorrectly identified as CIP		<u>76,468</u>
	\$	<u>653,052</u>

OOS items:

Wastewater Treatment and Disposal Division included \$2,753,461 of Bid-to-Goal payments made in FY 2008 in its total OOS expenditures. However, Bid-to-Goal payments made in FY 2008 are already identified as a separate line item on the Annual Report.

Wastewater Collection Division included \$569,477 of Service Level Agreement (SLA) expenditures in total OOS expenditures. However, SLAs are already identified as a separate line item on the Annual Report.

We identified one data entry error on Wastewater Collection Division's OOS listing, resulting in a \$129,132 increase in OOS expenditures.

As a result of these errors, OOS items were overstated by the following amounts:

Bid to Goal payments included in OOS	\$	2,753,461
SLAs included in OOS		569,477
Data entry error		<u>(129,132)</u>
	\$	<u>3,193,806</u>

During our review of the MOU, we noted that section V.E. states that "The Director of the MWWD shall be responsible for investigating uncontrollable events/changes in law to determine materiality... Upon such findings, the Director shall issue a notice to the parties of this agreement stating the cost and consequence of the event." The written notice was not prepared as procedure calls for; alternatively, written notice was prepared as a follow-up during our fieldwork.

Released encumbrances:

One encumbrance for \$9,908 that was listed as being released subsequent to year-end was fully expended on or before June 30, 2008. Therefore, savings was overstated by that amount.

One purchase order for \$10,544 was identified by MWWD as being released subsequent to year-end. This amount increased budgetary savings, however, the purchase order was subsequently re-encumbered for payment.

Recommendations:

We recommend that MWWD export Simpler Financials after the Comptroller has posted all post-close adjustments. In addition, we recommend that MWWD maintain both an Excel file and a paper copy of the report as exported. A reconciliation between total expenditures, for all Divisions, including out-of-scope items, to total expenditures reported on the Annual Report should be performed. A reconciliation between all post-close adjustments and those excluded from expenditures on the Annual Report should be performed. These reconciliations should be provided for our review of the savings calculation. MWWD should obtain a listing of all post-close adjustments pertaining to MWWD Divisions from the Comptroller's office to corroborate MWWD reports.

We recommend that the existing review process among the Divisions ensure;

1. That all OOS expenditures included in the Annual Report are valid by comparing detailed reports exported to Excel to reports printed directly from Simpler.
2. That OOS items included in the savings calculation are valid according to policies and procedures proscribed in the MOU.
3. That all encumbrances designated as released are correctly stated in the Annual Report.
4. That re-encumbered items be excluded from amounts released.

Finding 2:

During our review of the MOU and the Bid-to-Goal Public Contract (Bid) between the MWWD management team and department staff, we noted that the Director's Contingency was not discussed nor was it identified as a specific line item in the Budget Objective. Therefore, we would have no way of identifying the amount or the nature of the items that comprise the Contingency. After the Annual Report was submitted, Management made a determination to remove the Contingency, thereby reducing the Budget by \$4,681,639.

Recommendations:

We recommend that Management consider amending the MOU and/or the Bid explicitly to define the Director's Contingency, including the total amount allowed, its purpose, and how it is to be used.

OTHER RECOMMENDATIONS:**Recommendation 1:**

We recommend that all schedules prepared to support the savings calculations from Simpler be exported to Excel and printed to a PDF document so that the integrity of the Excel documents can be verified.

KEY PERFORMANCE SERVICE LEVELS

SUMMARY:

MWWD indicated all 7 of the Key Performance Service Levels as defined in the MOU for the fiscal year 2008 were met. We tested all of them (100%) to determine if adequate supporting documentation exists to substantiate the status. We agree with the status reported for all 7 service levels.

According to the MOU, "the performance service levels...are considered key metrics to overall wastewater utility service delivery. In that context, should any of these core measures not be met, the deposit to the Employee Efficiency Incentive Reserve [Reserve]...shall be decremented by 10% for each unmet key performance metric." Based on the results of our test work, no amounts should be decremented from the Reserve. A summary of the results is listed below:

Key Performance Service Levels	% Met per MWWD	% Met per Testwork	Difference
Sanitary Sewer Overflows: Number of SSOs per 100 miles of Main	100.00%	100.00%	0.00%
Point Loma Wastewater Treatment Plant Permit Compliance	100.00%	100.00%	0.00%
North City Water Reclamation Plant Permit Compliance	100.00%	100.00%	0.00%
South Bay Water Reclamation Plant Permit Compliance:	100.00%	100.00%	0.00%
ISO 14001 Certification for Wastewater Collection Division	100.00%	100.00%	0.00%
ISO 14001 Certification for Wastewater Treatment and Disposal Division	100.00%	100.00%	0.00%
ISO 14001 Certification for Environmental Monitoring and Technical Services Division	100.00%	100.00%	0.00%

While we agree with the status of achievement for all Key Performance Service Levels tested, our procedures have identified areas for improvement.

Recommendations:

We recommend that summaries be developed for each of the Key Performance Service Levels. The summaries should include all relevant information required to adequately test the achievement of the Key Performance Service Levels including:

- A contact person
- A detailed description
- A list of source documents used to measure the service level
- Criteria for achievement

Developing summaries will not only streamline the testwork process but it will eliminate any potential ambiguity and the need for interpretation.

We recommend that supporting data used to measure and report Key Performance Service Level achievement be made available to us at the beginning of fieldwork.

We recommend that the review procedures already established by MWWD ensure that all supporting data is adequate to support Service Level achievement.

DIVISION PERFORMANCE GOALS

SUMMARY:

MWWD indicated 20 of the 24 goals that comprise the fiscal year 2008 division specific Gain-sharing Performance Goals were met or partially met (the total excludes 2 goals that were granted administrative relief). We tested 13 of the 20 goals (65%) to determine if adequate supporting documentation exists to substantiate the status of those goals. One goal was shared by three divisions and was weighted as three goals, as it appears in all three divisions. Of the 13 goals we tested, we agree with the status reported for all 13 goals. Payouts should be based on the percentages below:

Division	% Met per MWWD	% Met per Testwork	Difference
Engineering and Program Management	100.00%	100.00%	0.00%
Environmental Monitoring and Technical Services	100.00%	100.00%	0.00%
Administrative Services	100.00%	100.00%	0.00%
Wastewater Treatment and Disposal	25.00%	25.00%	0.00%
Wastewater Collection	83.33%	83.33%	0.00%

As noted in our purpose and scope section of this report, we have been requested to identify practices and procedures that will assist MWWD in improving future Division Performance Goals program reporting. We do note that proactive changes to administrative procedures have been developed and implemented by MWWD staff in the past year. Recognizing that all programs of this nature can always be improved, we are providing the following as procedural reminders and suggested areas for improvement. AKT has provided specific examples to MWWD management and staff in support for the following items as a tool to use for process improvement.

1. Where appropriate and possible provide multiple sources of corroborating evidence in support of goal attainment status.
2. Ensure that a formal reconciliation process is in place and completed where detail reports are provided as support for the summary values given to AKT.
3. Ensure during the goal development process that the specific goal is clearly crafted, challenging enough to be effective, and includes an accurate unambiguous description for goal attainment criteria and measurability requirements.

This report is intended solely for the information and use of the City of San Diego and Metropolitan Wastewater Department and is not intended to be and should not be used by anyone other than these specified parties.

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